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SIPDIS

SENSITIVE

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DEPT PLEASE PASS USTR FOR NOVELLI, LERRION
USDA FOR FAS FOR ITP/MEYER, HANSEN;
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SUBJECT: What Drives Investment in Turkey's Ag Sector?

Sensitive but Unclassified. Not for Internet Distribution.

[1](#)1. (SBU) Summary. Despite a low level of direct foreign investment and foreign companies who are discouraged by the investment climate, local Turkish business are continuously seeking the next investment opportunity - even in Turkey's agriculture sector. The cattle sector is a prime example. Recently there has been a lot of interest in the beef and dairy cattle sectors that has resulted in recent sales of U.S. breeding cattle to Turkey, despite high prices and high shipping costs. Many companies seem to be closely watching their competitors in order not to miss an opportunity. The danger of course, is that all this interest will eventually lead to overproduction, falling prices and bankruptcies since many investments are not always based on sound financial plans. End Summary.

Cattle - The Next Big Opportunity?

[1](#)2. (SBU) During the past 12 months interest in the cattle industry has increased dramatically in Turkey. Cattle inventories have dropped dramatically since the 1970s when inventories reached over 16 million head. Today, total cattle inventories in Turkey are about 11 million head. Prices for beef have increased sharply since Turkey does not permit any legal imports of beef or any other meat for that matter. In the past, Turkey imported large numbers of cattle for fattening, particularly from Germany. However, after the BSE crisis in Europe, all imports were banned. Turkish officials realized that with most cattle imports stopped, better genetics would be needed.

[1](#)3. (SBU) The United States and Turkey negotiated an agreement allowing imports of breeding cattle in 1998. Some shipments did ensue. Beginning in 2002 and continuing today breeding cattle imports for both dairy and beef operations have dramatically increased. We know of several recent sales totaling over 1200 head. Moreover, interest in this industry reads like a Who's Who in Turkey. Koc, Sabanci, Dogan and Yasar families have either imported or expressed interest in breeding cattle. During a recent trip to Istanbul, AgCounselor met with the distributor of DELL computers who expressed interest in this industry.

Why Cattle and Why Now?

[1](#)4. (SBU) Investment in the beef and beef sectors makes sense financially. Beef prices are high and tourism has picked up along with the demand for high-quality beef in hotels and restaurants. The situation may also be a good indication of the Turkish business mentality. Turkey seems to resemble a small village at times where competitors know each other like neighbors, and try to outdo one another or, at the very least, keep pace with one another.

[1](#)5. (SBU) All of the richest Turkish families have interest in the food processing and agriculture sectors which are second tier industries after banking, media and construction. When one company gets involved - they all tend to follow. Of course, the level of expertise is not always as good as it should be. For example, we have been approached by a number of Turkish companies including the distributor of DELL computers in Turkey to buy livestock

from the United States. One is sometimes amazed at their lack of knowledge about animal diseases, feed and livestock management. Moreover, they seem to have little interest in Turkish or international import regulations. Two companies were unaware that Turkey has Food and Mouth Disease (FMD) and, as a result, is prohibited from shipping beef to the European Union. A second representative declared emphatically that Turkey could be declared free of FMD disease within a year, which to say the least, is highly unlikely.

Foreign Companies Shy Away from Turkey

16. (SBU) U.S. companies have had a number of problems stemming from weaknesses in the Turkish investment climate. Turkey's agriculture sector is overly regulated with little transparency. In addition, as a result of some high-profile investment issues like Cargill's glucose facility, many U.S. companies are less inclined to invest in Turkey. On the other hand, Turkish companies seem to have a lot of money and are often looking for the next investment opportunities sometimes without thoroughly thinking through the entire process.

What, Me Worry?

17. (SBU) The danger in the Turkish approach in the agriculture sector is that it can often have disastrous consequences. In the mid-1990s, investment in the poultry sector increased dramatically leading both to modernization and overproduction. As a result, poultry and egg prices dropped precipitously and many companies were forced into bankruptcy. The same danger could face the livestock sector with investment leading to overproduction and falling prices. Of course, the situation is not limited to livestock. A U.S. cotton consultant recently commented that Turkish firms are looking to invest in new and expensive spinning machinery. While the new machinery will be more efficient, it will also lead to higher production. No thought has been given to where this production can be sold.

Comment: Ag Investment - A Contradictory Picture

18. (SBU) On the one hand, foreign companies continue to shy away from investment in Turkey mainly due to legal and regulatory problems and despite the recognized potential. On the other hand, Turkish investors are always looking for new investment opportunities. It appears that these investments are sometimes a matter of prestige as well as competition among families rather than being purely driven by the profit motive. While Turkish companies are looking to establish ties with their Western counterparts, it is a good sign that Turkish companies have the money to invest and are willing to invest in Turkey. Sometimes these investments are made with little thought, which in turn may lead to overproduction, falling prices and failing companies.

Pearson